GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:5991
ANSWERED ON:31.08.2001
INVESTMENT AND LOAN POLICY OF BANKS
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Will the Minister of FINANCE be pleased to state:

(a) whether a decision has been taken to revise the investment and loan limits of the banks in view of the scams;

(b) if so, details of the revision in this regard;

(c) whether scams can be checked completely as a result of these revisions; and

(d) if so, upto what extent ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALASAHEB VIKHE PATIL)

(a) & (b):- Reserve Bank of India (RBI) has issued revised guidelines in May, 2001 to all commercial banks on banks` investments in shares and financing of equities. These guidelines, inter-alia, stipulate that subject to the overall exposure to sensitive sectors, a bank`s exposure to capital market by way of investments in shares, debentures and units of mutual funds (other than debt funds) through primary or secondary markets should not exceed 5% of its total outstandings domestic credit as on 31st March of the previous year. The ceiling of 5% covers:-

i. Direct investment by a bank in equity shares, convertible bonds/debentures and units of equity-oriented mutual fund.
ii. Advances against shares to individuals for investment in equity shares (including IPOs), bonds and debentures, units of equity oriented mutual funds etc.
iii. Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers/market makers.

These guidelines also stipulate that, as a prudential measure, banks` investment in equities etc. should not normally exceed 20% of its net worth.

(c) & (d):- The banks are required to ensure that their operations are in tune with the prescribed regulatory guidelines and compliance thereof is verified by RBI through its inspections and by the Statutory Auditors of the Bank.RBI has reported that the total exposure of the Banking System by way of investment in capital market as on 31st January, 2001, stood at Rs.8770.55 crore, which formed 1.97% of the banks` outstanding advances. RBI has further reported that the total exposure of the banks by way of advances against securities like shares, debentures etc. was less than 2% of their total advances. According to RBI, the loss incurred by banks in investments and lending operations on account of fall in the market value of securities was not large.